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MATTERS RELATING TO ARRANGEMENTS FOR THE FINANCIAL MECHANISM

GUIDANCE ON PROGRAMME PRIORITIES, ELIGIBILITY CRITERIA AND POLICIES AND ON THE DETERMINATION OF AGREED FULL INCREMENTAL COSTS

Report of the Global Environment Facility to the Conference of the Parties on the development of an operational strategy and on initial activities in the field of climate change

Note by the interim secretariat

1. At its tenth session, the Intergovernmental Negotiating Committee for a Framework Convention on Climate Change adopted decision 10/3 on temporary arrangements between the Committee and the Global Environment Facility (GEF) (A/AC.237/76, annex I). Paragraph 4 of that decision invites the GEF to provide a report containing information on the development of an operational strategy in the climate change area and on the initial activities in this field, for consideration by the Conference of the Parties at its first session (COP 1).

2. At its meeting held from 22 to 24 February 1995 in Washington, D.C., the GEF Council took note of the attached report (see annex) and approved its submission to COP 1 in response to the request by the Committee.

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*/ Re-issued for technical reasons.

Annex

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GLOBAL ENVIRONMENT FACILITY

REPORT BY THE GEF TO THE FIRST CONFERENCE OF THE PARTIES OF THE FRAMEWORK CONVENTION ON CLIMATE CHANGE

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REPORT BY THE GEF TO THE FIRST CONFERENCE OF THE PARTIES OF THE FRAMEWORK CONVENTION ON CLIMATE CHANGE

1. At its Tenth Session held in Geneva from August 22 to September 2, 1994, the Intergovernmental Negotiating Committee for a Framework Convention on Climate Change (INC) adopted Decision 10/3 entitled, *Temporary Arrangements between the Committee and the Global Environment Facility*. Paragraph 4 of the decision "invites the GEF to provide to the Committee at its eleventh session a report containing information that could assist the COP to review the interim arrangements referred to in Article 21.3 in accordance with Article 11 of the Convention, for consideration by the COP at its first session. A report containing information on the development of an operational strategy in the climate change area and on initial activities in this field should also be provided for consideration by the COP at its first session taking into account paragraph 2(e) and (f) above."

2. Paragraph 2(e) concerns the content of regular reports to the COP which should show how the GEF has applied the guidance and decisions of the COP in its work related to the Convention.

> "In addition, the COP should receive and review at each of its sessions a report from the governing body of the operating entity which should include specific information on how it has applied the guidance and decisions of the COP in its work related to the Convention. This report should be of a substantive nature and incorporate the programme of future activities of this entity in the areas covered by the Convention and an analysis on how the entity, in its operations, implemented the policies, eligibility criteria and programme priorities related to the Convention established by the COP. In particular, a synthesis of the different projects under implementation and a listing of the projects approved in the areas covered by the Convention, as well as a financial report including accounting and evaluation of its activities in the implementation of the Convention, indicating the availability of resources, should be included."

3. Paragraph 2(f) concerns the full coverage of relevant information:

> "In order to meet the requirements of accountability to the COP, reports submitted by the governing body of the operating entity should cover all its activities carried out in implementing the Convention, whether decisions on such activities are made by the governing body of the operating entity or by bodies operating under its auspices for the implementation of its programme. To this end, it shall make such arrangements with such bodies as might be necessary regarding the disclosure of information."

4. The present report is a response to the invitation in paragraph 4 of the INC's decision and addresses both plans for the development of an operational strategy and initial project activities.

DEVELOPMENT OF AN OPERATIONAL STRATEGY

5. Pursuant to paragraph 20 (f) of the Instrument for the Establishment of the Restructured Global Environment Facility, the GEF Council will "[a]pprove and periodically review operational modalities for the Facility, including operational strategies and directives for project selection." Insofar as the GEF serves for the purposes of the financial mechanism of the United Nations Framework Convention on

Climate Change (FCCC), the "Council shall act in conformity with the policies, program priorities, and eligibility criteria decided by the Conference of the Parties." [1]

6. The GEF Council agreed at its first meeting (July 12-13, 1994), to follow a "two track" programming approach in 1995: while work is undertaken by the Secretariat to develop a long term comprehensive operational strategy, supported by analytical work and consultations, and allowing for the guidance expected from the FCCC and the Convention on Biological Diversity (track one) [2], some project activities are to be undertaken to allow for a smooth transition between the operations of the pilot phase and the restructured GEF (track two).

7. The main product of the first track would be an over-arching long-term strategy embracing all the GEF focal areas, including climate change. The Council was of the view that the process of developing an operational strategy would take up to a year to complete. In the period before the first meeting of the Conference of the Parties to the Climate Change Convention, preparatory work has begun on the development of an operational strategy for climate change operations on the basis of interim guidance received from the INC. As elements of the long-term program are developed and approved, they will be incorporated into the transitional guidance for second track project activities, and within a year, the two are expected to converge. The two-track approach should facilitate a balance between strategic policy development and operational activities.

8. In the formulation of a long-term operational strategy for climate change activities, the GEF Secretariat will continue to consult with the interim secretariat of the UNFCCC with a view to ensuring that the provisions of the Convention and conclusions reached by the INC and the COP are fully reflected in the operational strategy related to climate change.

9. After guidance has been received from the first COP, the GEF Secretariat will finalize a draft operational strategy for climate change activities for the Council's consideration. The main operational implications for the GEF will depend on which strategic direction is taken by the COP. It is possible that the COP may adopt one of the following three approaches:

(a) The COP may adopt a strategy of maximizing short-term cost-effectiveness by, for example, making it a program priority that measures for sequestering or abating the emission of carbon dioxide have the lowest unit incremental cost. These measures would generally require standard technologies and approaches – many of which were demonstrated in the Pilot Phase of GEF – such as gas-flaring reduction, energy conservation, and the substitution of natural gas for oil or coal. This strategy would seek to minimize the further accumulation of greenhouse gases in the atmosphere to the extent possible with the funds that are available.

(b) The COP may adopt a strategy of maximizing long-term cost-effectiveness by, for example, making it a program priority to encourage those abatement and sequestration measures that are needed by developing countries in the long run and whose costs would decline if they were implemented in scale now. The projects would be selected for their

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[1] Paragraph 15 of the Instrument.

[2] See *GEF Council: A Proposed Statement of Work*, GEF/C.1/2, paragraph 13.

cost-effectiveness from among country-driven opportunities to implement the identified program priorities. In such a case, the GEF portfolio would be rather different from that described in paragraph (a) above. It would probably comprise renewable energy projects, measures to promote appropriate long-term inter-modal and technology shifts in transport, measures to promote appropriate technology transfer in industry, measures proposed by governments for putting in place the policy and institutional frameworks for reducing dependence on greenhouse gas emitting techniques over the long term, and other advanced measures for abatement or sequestration that are particularly appropriate for developing country situations, including land-use management. In the short term, the incremental cost per unit of greenhouse gas reduced would be higher than that achievable in an explicitly short-term strategy, and therefore over the period of the current GEF replenishment, the greenhouse reduction would be less than would be the case for the short-term strategy. However the long-term impact would be much greater because the projects would drive down costs, build capacity, and start to put in place the technologies that can ultimately avoid (rather than merely reduce) greenhouse gas emissions – such as fossil-fuel free technologies in the energy sector.

(c) The COP may adopt a mixed strategy, wherein projects would be selected in accordance with a double set of program priorities. For example, projects could be selected if they met *either* one of the long-term program priorities or one of the short-term priorities (i.e., they were so cost-effective in the short-term that they were "too good an opportunity to miss"). Alternatively, projects might be preferred if they met *both* long-term and short-term criteria (i.e., among the country-driven opportunities to implement a long-term program priority, those proposals which were also highly cost-effective in the short-term would be preferred).

The COP is invited to provide guidance as to which strategic direction should be followed by its financial mechanism.

10. The GEF operational strategy can be developed once this strategic direction is known.

(a) With regard to paragraph 9(a), an indicative list of standard technologies could be produced with estimated unit abatement costs (i.e., the incremental cost per unit of greenhouse gas reduced or sequestered). Actual incremental costs, of course, would still need to be calculated case-by-case to reflect actual country situations.

(b) With regard to paragraph 9(b), strategic plans for the promotion of various specified types of measures would need to be prepared. This would be a more difficult task than that of paragraph (a) above. First, the types of measures need to be chosen. Then, with respect of each type of measure, it would be necessary to outline, for recipient countries as a whole, what could reasonably be expected to happen *without* GEF support, and what can be reasonably expected *with* GEF support. In this manner, the role of GEF support might be established for some (but not all) the types of measures proposed. Some technologies might decline in cost anyway as a result of activities being undertaken in developed countries, and the most cost-effective recipient country response would be to wait a few years before implementing them. But in other cases, large-scale implementation in recipient countries might be crucial for the development of economic

scale, for stimulating appropriate research and development, and for creating the capacity that would lead to project success, long-term cost reduction, and, ultimately, financial sustainability.

(c) With regard to a mixed strategy as described in paragraph 9(c), criteria for determining the balance between the two approaches would be developed.

INITIAL ACTIVITIES

11. In the Pilot Phase, GEF financed 41 projects in climate change totalling $ 259.6 million (see Table 1 for a listing of pilot phase projects). During the pilot phase, projects were primarily for demonstration purposes. They helped determine appropriate forms of long-term institutional cooperation in this field and provided data on cost-effectiveness and other matters.

12. Decision 10/3 of the INC was submitted to the GEF Council at its second meeting in November 1994, the first Council meeting subsequent to the tenth INC/FCCC. Paragraph 1 of Decision 10/3 of the INC/FCCC invited the GEF "to ensure that activities approved by the GEF Council, within the framework of the financial mechanism of the Convention between now [September 2, 1994] and the first session of the Conference of the Parties are in conformity with [the conclusions reached by the Committee at its tenth session on guidance to the operating entity.]" The Council hereby confirms that the guidance set forth in Decision 10/3 of the INC has been taken fully into account in subsequent activities of the GEF. Specifically, GEF activities in the period since the decision was adopted are fully consistent with paragraphs 1(a) through 1(e) of the decision, and those projects that have been approved comply with the eligibility criteria for countries and activities. Furthermore, as requested in the decision, the Council has taken note of the conclusions reached by the INC set forth in paragraphs 2 and 3 of Decision 10/3.

13. In accordance with the two-track approach approved in July 1994, the GEF Council at its November meeting considered a program of activities for 1995. It was agreed that the program should be comprised of enabling activities, which are a program priority adopted by the INC,[3] and should include a small number of preferential, demonstration or innovation projects that contribute to the transition from the pilot phase to the longer term operational strategy. These preferential projects are to include energy efficiency and renewable energy projects and programs which go beyond Pilot Phase activities.[4] The Council furthermore agreed that $80 - $100 million would be available in 1995 for enabling activities in the focal areas of climate change and biodiversity and that $140 - $160 million would be available for preferential projects in climate change, biodiversity, and international waters (with flexibility in the allocation of funds among focal areas).

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[3] Paragraph 1(b)(1) of Decision 10/3 provides that "in the initial period, emphasis should be placed on enabling activities undertaken by developing country Parties..."

[4] See document GEF/C.2/5, *Guidance for Programming GEF Resources in 1995*.

14. The GEF Council requested the Secretariat to inform the COP of the FCCC of this approach to programming the resources for climate change activities in 1995 and to invite the COP to consider the categories of activities selected for implementation. [5]

Enabling Activities and Preparations for National Communications

15. In accordance with paragraph 1(b)(i) of Decision 10/3, the GEF is giving priority to the financing of enabling activities and preparations for national communications.

16. The GEF Secretariat (in consultation with the Implementing Agencies) and the Interim Secretariat of the Convention have reached an agreement on coordinating their operations to meet this program priority (see document jointly issued by the Interim Secretariat of the FCCC and the GEF Secretariat as A/AC.237/90/Add.3 and GEF/C.3/Inf.2). The agreement covers the provision of information, the provision of financial support from the financial mechanism, the coordination of this financial support with that from other sources, and the exchange of information and operational experience in implementing enabling activities.

17. Where GEF finances enabling activities and preparations outside of the financial mechanism, for example in economies in transition, the approach would in all other respects be consistent with that taken under the financial mechanism.[6]

Initial Project Activities Approved by the GEF Council

18. In accordance with the *Instrument for the Establishment of the Restructured GEF* and the decisions of the GEF Council, the CEO of the GEF has established a GEF Operations Committee (GEFOP). The GEFOP is responsible, among other things, for reviewing all GEF project proposals recommended for inclusion in the proposals to be submitted by the Secretariat to the Council for approval. The GEFOP is comprised of staff from the three GEF Implementing Agencies, the GEF Secretariat, and the Chair of the Scientific and Technical Advisory Panel (STAP). The Secretariats of the Climate Change Convention and the Convention on Biological Diversity are invited to attend relevant GEFOP meetings.

19. The first GEFOP meeting was held on December 14, 1994. Representatives of the Climate Change Convention's Secretariat participated in the meeting. On the basis of the recommendations of the GEFOP meeting, the CEO presented to the Council for its approval eight project proposals for climate change activities and preferential projects. These were approved at the third meeting of the GEF Council in February 1995 (see Table 2 for a listing of the projects). The total GEF resources approved for implementing these activities is $9.292 million.

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[5] Appendix to Joint Chairs' Summary of the Second GEF Council, Decision on Agenda Item 9.

[6] See paragraph 3(a) of Decision 10/3.

TABLE 1: CLIMATE CHANGE ACTIVITIES IN THE PILOT PHASE OF GEF
(Source: *GEF Quarterly Operational Report*, November 1994.)

Benin	Village-Based Carbon Sequestration	$ 2.5
Brazil	Biomass Integrated Gasification/Gas Turbine	7.7
Chile	Reduction of Greenhouse Gases	1.7
China	Issues and Options in Greenhouse Gas Emissions Control	2.0
China	Development of Coal-Bed Methane Resources	10.0
China	Sichuan Gas Transmission and Distribution Rehabilitation	10.0
Costa Rica	Tejona Wind Power	3.3
Cote d'Ivoire	Crop Waste Power	5.0
India	Optimizing Development of Small Hydel Resources in the Hilly Regions	7.5
India	Bio-Energy from Industrial, Municipal and Agricultural Waste	5.5
India	Cost-effective Options for Limiting Greenhouse Gas Emissions	1.5
India	Alternate Energy	26.0
Iran	Teheran Transport Emissions Reduction	2.0
Jamaica	Demand Side Management Demonstration	3.8
Mali	Household Energy	2.5
Mauritania	Wind Electric Power for Social and Economic Development	2.0
Mauritius	Sugar Bio-Energy Technology	3.3
Mexico	High Efficiency Lighting Pilot	10.0
Morocco	Repowering of Power Plant	6.0
Pakistan	Fuel Efficiency in the Road Transport Sector	7.0
Pakistan	Waste-to-Energy Lahore Landfill Gas Extraction and Use	11.0
Peru	Technical Assistance to the Centre for Energy Conservation	0.9
Philippines	Leyte-Luzon Geothermal	30.0
Poland	Coal-to-Gas Conversion	25.0
Russia	Gas Distribution Rehabilitation and Energy Efficiency	3.2
Sudan	Community Based Rangeland Rehabilitation for Carbon Sequestration and Biodiversity	1.5
Tanzania	Electricity, Fuel, and Fertilizer from Municipal Waste in Tanzania: A Demonstration Biogas Plant for Africa	2.5
Thailand	Promotion of Electricity Energy Efficiency	9.5
Tunisia	Solar Water Heating	4.0
Zimbabwe	Photovoltaics for Household and Community Use	7.0
Regional	Control of Greenhouse Gas Emissions Through Energy Efficient Building Technology	3.5
Regional	Asia Least Cost Greenhouse Gas Abatement Strategies	9.5
Regional	Regional Strategy for Reduction of Greenhouse Gas Emissions in Arab States	2.5
Regional	Building Capacity in Sub-Saharan Africa to Respond to the UN Framework Convention on Climate Change	2.0

Global	Global Change System for Analysis, Research and Training (START)	7.0
Global	Climate Change Capacity Building	0.9
Global	Alternatives to Slash and Burn Research Initiatives	3.0
Global	Monitoring of Greenhouse Gases Including Ozone	4.8
Global	Research Programme on Methane Emission from Rice Fields	5.0
Global	Country Case Studies on Sources and Sinks of Greenhouse Gases	4.7
Global	Capacity Building and Infrastructure (IPCC)	2.8
	Total	$259.6

TABLE 2: INITIAL PROGRAM OF ACTIVITIES OF THE RESTRUCTURED GEF AS APPROVED AT ITS FEBRUARY '95 COUNCIL MEETING

Country	Project	Implementing Agency	Amount/$million
Argentina	Country Study on Climate Change	UNDP	1.000
Botswana	Enabling Botswana to fulfill its commitments to the UN Framework Convention on Climate Change	UNDP	0.350
China	Energy Conservation and Pollution control in Town and Village Enterprises (TVEI)	UNDP	1.000
Jordan	The Hashemite Kingdom of Jordan - Building Capacity to respond to the challenges and opportunities created by national response to the Framework Convention on Climate Change	UNDP	0.242
Maldives	National GHG inventory and adaptation assessment to Climate Change	UNDP	1.000
Uruguay	Institutional Strengthening and Enabling Activities to comply with the UN Framework Convention on Climate Change	UNDP	0.700
Global	Country Case Studies on Climate Change impacts and adaptation assessment - Phase I	UNEP	2.000
Global	Economics of GHG Limitations - Phase I: Establishment of a Methodological Framework for Climate Change Mitigation Assessment	UNEP	3.000